

# **An Evaluation of the effect of Information Technology Usage on Tax Compliance in Sri Lanka**

**By**

**U.P.S.A.Jayalath**

LIBRARY  
UNIVERSITY OF MORATUWA, SRI LANKA  
MORATUWA



University of Moratuwa, Sri Lanka.  
Electronic Theses & Dissertations  
[www.lib.mrt.ac.lk](http://www.lib.mrt.ac.lk)

The dissertation was submitted to the Department of Computer Science & Engineering of the University of Moratuwa in partial fulfillment of the requirement for the Degree of Master of Business Administration

89454

Department of Computer Science and Engineering

University of Moratuwa

December 2006

University of Moratuwa



89454

004 "06"

004:65 (043)

TH

89454

## **Abstract**

Taxation is a common way of finding government revenue in any country in the world and it is usually collected from the public in various ways. Taxes are of two kinds, namely direct and indirect. Adam Smith, the famous economist, enunciated four principles of a tax, namely, equality, certainty, convenience and economy. Equality establishes the principles that everybody should pay tax to the State according to his ability. A tax should be certain. Time of payment, manner of payment, and the amount to be paid should be definite and known. Tax payers should be provided convenient method of payment and it should be time saving and less costly to both tax payer and tax authority.

In the modern world, there are uncountable numbers of monetary transactions. People have various types of sources of income than the past. So the maintenance of the above tax principles is very difficult by using manual systems. IT usage is obviously important in every area in taxation to enforce compliance and minimizing the number of defaulters.

Tax compliance is an important concept in taxation. Tax compliance drops because of many reasons affected to the efficiency of the revenue administration. IT usage of the tax authority and the taxpayers is one of the reasons that may increase the tax compliance by way of providing timely information, better communication facilities and easy payment methods etc to tax payers as well as to automated office facilities to the revenue staff.

This research examines the present situation of the IT usage in the Department of Inland Revenue and how IT is used in handling tax and related documents by the tax payers. The report contains hypothesis testing for the relationship between IT usage and tax compliance and concludes with recommendations to the future enhancements of IT applications in tax administration.

## ACKNOWLEDGEMENT

I wish to submit my sincere thanks to Prof.N.D.Gunawardena, Deputy Vice Chancellor and senior lecturer of the University of Moratuwa, who is my project supervisor, for the guidance and knowledge gave me to complete the research project successfully.

Similarly wish to extend my gratitude to Dr. Sanath Jayasena, senior lecturer and all MBA course coordinators, internal and external lecturers, MBA administrators and MBA assistants for the guidance and support which was given to me during the course period.

Additionally, I would like to thank all employees and Deputy Commissioners in the Department of Inland Revenue and all tax payers who participated in this research by filling questionnaires and giving me the useful information. I also appreciate the participation of several professional tax consultants in the process of data collection.



University of Moratuwa, Sri Lanka  
Electronic Theses & Dissertations  
[www.lib.mrt.ac.lk](http://www.lib.mrt.ac.lk)



### Declaration

I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university to the best of my knowledge and belief it does not contain any material previously published, written or orally communicated by another person or myself except where due reference is made in the text. I also hereby give consent for my dissertation, if accepted, to be made available to outside organizations.

.....  
U.P.S.A. Jayalath  
MBA/IT – 03/9063  
University of Moratuwa, Sri Lanka.  
Electronic Theses & Dissertations  
[www.lib.mrt.ac.lk](http://www.lib.mrt.ac.lk)

Date: ...11./01./2007.....

To the best of my knowledge, the above particulars are correct.

.....  
Prof. N.D. Gunawardena  
Supervisor

11/01/2007  
Date:.....

## Table of Contents

	Page No
Abstract	i
Acknowledgement	ii
Declaration	iii
Table of Contents	iv
List of Tables	v
List of Charts	vi
Abbreviations	vii
1. Chapter 1- Introduction	1 - 11
2. Chapter 2 - Literature Review	12 - 24
3. Chapter 3 - Research Methodology and Data Collection	25 - 34
4. Chapter 4 - Data Analysis and Discussion	35 - 42
5. Chapter 5 - Conclusion and Recommendations	43 - 47
Annexure 1 – Questionnaire 1	
Annexure 2 - Questionnaire 2	
Annexure 3 - Questionnaire 3	
Annexure 4 - Questionnaire 4	
Annexure 5 - Questionnaire 5	
Annexure 6 - Questionnaire 6	
Annexure 7 – Inland Revenue Incentive Scheme, Individual Appraisal Form	
Annexure 8 – Incentive Targets for 2 <sup>nd</sup> Half of 2005 – Colombo Regional Offices	
Annexure 9 – Results of Questionnaire 1 and 3	
Annexure 10 - Results of Questionnaire 2 and 3	
Annexure 11 - Results of Questionnaire 4	
Annexure 12 - Results of Questionnaire 6	
References	

<b>List of Tables</b>	<b>Page</b>
Table 1: Tax Collection and Government revenue – 2005	1
Table 2: Total Tax Collection – 2005, Department of Inland Revenue	2
Table 3: Central Government tax revenue as a percentage of GDP, 1990 – 1995 and 1996 – 2002	5
Table 4: tax filling compliance rates in Sri Lanka	6
Table 5: Tax Compliance of some other countries – 2003	6
Table 6: Variables	25
Table 7: Provincial collection of Income tax and VAT – 2005	29
Table 8: A comparative study on IT facilities of individual tax payers and cooperate tax payers	30
Table 9: Summary of the important data extracted from Questionnaire 4	43
Table 10: Data extracted from Questionnaire 6	44
Table 11: Summarized results of Questionnaire 1	45
Table 12: Summarized results of Questionnaire 2	46

<b>List of Figures</b>	<b>Page</b>
<b>Figure 1:</b> Increase in Electronic Lodgment Service for tax returns in UK	15
<b>Figure2:</b> Increase in Electronic tax payments in UK	16
<b>Figure3:</b> Provincial Computer Literacy in Sri Lanka	27
<b>Figure 4:</b> Provincial availability of Computers in Sri Lanka	28
<b>Figure 5:</b> Selection of tax payer population for distribution of Questionnaire No 1 & 2	31
<b>Figure 6:</b> Scatter Plot, Regression Line and Regression Equation - Results of Questionnaire No 1 and 3	36
<b>Figure 7:</b> Scatter Plot, Regression Line and Regression Equation - Results of Questionnaire No 2 and 3	37
<b>Figure 8:</b> Scatter Plot, Regression Line and Regression Equation - Results of Questionnaire No 4	39
<b>Figure 9:</b> Scatter Plot, Regression Line and Regression Equation - Results of Questionnaire No 6	40

## **ABBREVIATIONS**

**ADB** – Asian Development Board  
**ATM** – Automatic Teller Machine  
**ATO** - Australian Taxation Office  
**CGIR** – Commissioner General of Inland Revenue  
**EDI** - Electronic Data Interchange  
**EFT** – Electronic Fund Transfer  
**ELS** - Electronic Lodgment Service  
**EU** – European Union  
**FMRP** - Fiscal Management Reform Program  
**GDP** – Gross Domestic Product  
**GPRS** – General Packet Radio Service  
**ICT** – Information Communication Technology  
**IFB** – Invitation for Bids  
**IRD** - Inland Revenue Department  
**IRIN** - Inland Revenue Interactive Network  
**IRS** - Inland Revenue Service  
**IT** - Information Technology  
**LAC** – Latin American Countries  
**OECD** – Organization for Economic Cooperation and Development  
**PAYE** – Pay As You Earn  
**PKI** - Public Key Infrastructure  
**PSMP** - Public Sector Management Project  
**SMS** – Short Message Service  
**TCMP** - Taxpayer Compliance Measurement Program  
**UK** – United Kingdom  
**UNPAN** – United Nations Public Administration Network  
**VAT** – Value Added Tax